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## **ENTREPRENEURIAL INNOVATIVE VENTURES: INTERNATIONALIZATION STRATEGY OF NMUSIC**

Internationalization Plan of the partnership NMusic/TRACE to Morocco

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#1733

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## **ABSTRACT**

The goal of this thesis is to formulate the internationalization strategy of the partnership of NMusic with TRACE for entering the digital music market in Morocco. This research involves a deep characterization of both external and internal aspects that influence the business operations in Morocco, as well as the identification of the key drivers of the digital music industry. The internationalization strategy is presented through the design of the partnership' business model, with clear definition of the value proposition, operating model and revenues for the first year of operations in Morocco. The finding related with this research is that if applied with a fundamentally well-grounded strategic approach, the entering in the Moroccan market is feasible.

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## **I. EXECUTIVE SUMMARY**

Digital music is going global. The industry and markets are in constant evolution and the many involved players try to keep track of changes through a continuous adaptation of products, services and formulation of innovative and dynamic strategies. As the European and North American markets of digital music become more saturated, the big players are turning to the emerging markets, where opportunities are arising and rapid potential growth may prove to be a reality.

NMusic is one of those players. The company's executives, leaded by CEO Celestino Alves, have already perceived where the future of digital music industry is converging and are committed to proceed with the company's internationalization process to the Middle East and North Africa.

This thesis presents the internationalization strategy of NMusic to one of those countries, Morocco, in partnership with TRACE, a French media group that is focused on providing music content worldwide. The analysis is divided into two main extensive subjects, the strong internal and external background contextualization and the business model definition, where we define a set of strategic tools that range from leveraging of the partnership strengths to the definition of the specific offering for the Moroccan consumers. These subjects are perfectly complementary in a manner that if efficiently combined, are able to create value and support a sustainable competitive advantage for the partnership.

The main findings of this thesis are that the possibility of entering in the Moroccan industry of digital music can be translated into a significant creation of value for NMusic, but the taken approach needs to be very well grounded a relative level of certainty must be ensured.

**Keywords:** Internationalization Strategy, Morocco, NMusic, TRACE, Digital Music

**1.1. Research Question:** What is the best strategy that maximizes the creation of value for NMusic and TRACE when entering the Moroccan industry of digital music?

## 1.2. Issue Tree

Beyond the primary objective of this work, which is to give a proper, accurate and efficient answer to the previous question, it is important to define a set of sub questions that will facilitate the comprehension of the ultimate results. Sub questions are as follow, divided into a set of subtopics regarding business opportunity identification, market segmentation, mode of entry, operational strategy, partnership analysis, profit maximization, among others (refer to Appendix A for a schematized issue tree).

Table 1: Issue Tree.

Issue - Sub Question	Research “Methods”
<b>Market Evolution and Trends</b> - How is the industry evolving and which recent trends may affect NMusic in the Moroccan digital music market?	Literature Review Industry Mapping
<b>Opportunity Identification</b> - How to identify and take advantage of the opportunities that are arising in the country? What issues should be considered?	SLEPT Analysis Case Studies Secondary Market Research (Report Analysis)
<b>NMusic and TRACE Strategic Fit</b> - How to maximize the combination of the companies’ specialized knowledge and capabilities in order to create a sustainable competitive advantage?	SWOT/TOWS Analysis SMART Objectives Value Proposition and Operating Model
<b>Industry Attractiveness Testing</b> - How attractive is the industry? How should NMusic position in the market regarding customers and competitors?	Porter Five Forces Competitors Assessment Partnership Strategic Analysis
<b>Internationalization Strategy</b> - What strategic approach should NMusic and TRACE adopt in order to maximize the entrance the Moroccan market?	Scenarios Identification Collaborative Arrangements Mode of Entry Revenue Model

### **1.3. Methodology**

As Michael Porter<sup>1</sup> argues, although operational effectiveness is “necessary but not sufficient”, “competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value”.<sup>2</sup> Following this competitive strategy theory, in order to be successful, the internationalization process was carefully designed and discussed at both external and internal levels, taking into account that it can only be successful if it identifies a business opportunity, while creating value for all parts involved and differentiation to customers and partners.

The methodology used on this thesis was a combination of well-grounded analysis based on both qualitative interpretative and theoretical analytical approaches to discuss, characterize and recommend an internationalization strategy to a potential market as Morocco, which represents a business opportunity in the digital music industry.

On one hand, the primary market research was mainly qualitative and on the other hand, secondary research was based on market and industry analysis, theoretical frameworks deductive analysis (e.g., contextual business, strategy and marketing analytical models, industry attractiveness and competitive assessment as the Porter Five Forces, SWOT/TOWS analysis, among others) and literature review. All assumptions were explained in detail and clearly reasoned, which allowed a more efficient analysis of the consumer attitudes and beliefs towards the products and services that NMusic and its potential partner will offer in the Moroccan market.

## **II. LITERATURE REVIEW**

The music industry is a complex worldwide industry, due to the number and composite of all the players that are involved. From the artists, agents and record labels until the music distributors, such as streaming services, radio stations, physic stores, other enterprises, such as the advertising and publicity agencies, or even the Governments; the exchange of products, services, knowledge and money is in a constant flow (refer to Appendix B for a detailed scheme of the Industry Mapping).

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<sup>1</sup> Michael Porter (May 23, 1947) is the Bishop William Lawrence University Professor and leading authority on competitive strategy; the competitiveness and economic development of nations, states, and regions; and the application of competitive principles and strategic approaches to social needs (HBS Biography).

<sup>2</sup> Porter, M (1996), *What is Strategy?*, Harvard: Harvard Business Review.

The overall industry is controlled by few but powerful record labels, which are the music publishers and detain almost all rights regarding music distribution, with the Big Three<sup>3</sup> controlling around 89% of the global industry (Pollock, M., 2014). Most artists sign contracts with these (or other) record labels with the intent of taking advantage of their knowledge, connections and size (McDonald, H., 2014). However, royalties paid to the artists are low when comparing to the overall profit that record labels are making, and vary between 14 and 18 percent of their revenues (Salmon, R., 2007). This rational also applies to the digital music industry, whereas profits for the streaming services like NMusic are even smaller, due to the fact that the service providers are paying on average around 70% of their total revenue.

Streaming services usually adopt among three types business models: Freemium, Bundle or Standalone. The Freemium model is ad-funded and offers to users the possibility of choosing from a free or a premium service, and has the objective of engaging the customers that try the free service to upgrade to the premium version that offers more advanced and additional features. The Bundle model is one that integrates the streaming services' offering in a package of two or more different alternatives, which is usually integrated in a different brand. Finally, the Standalone model is one that offers consumers the possibility of choosing from a set of two or more different premium versions with different prices and features.

Focusing on the digital music industry, there are many factors that enhance the potential that this industry represents worldwide. Ever since 2008, the revenues of global music industry have been constantly growing and were worth \$5.9 billion by 2013, following a growth of 4.3% relative to the previous year. Moreover, according to the *Digital Music Report 2014 – IFPI*,<sup>4</sup> 39% of these revenues accounted for digital channels, in which revenues associated with streaming services represent the major part.

Subscription revenues increased by 51.3% and paying subscribers increased to 28 million worldwide, from just 8 million in 2010. Additionally, an *ABI Research*<sup>5</sup> study predicts that this number will increase up to 191 million in the next 5 years, until 2019.

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<sup>3</sup> The Universal Music Group, Sony Music Entertainment, and Warner Music Group compose the “Big Three” group.

<sup>4</sup> IMFP stands for International Federation of Phonographic Industry.

<sup>5</sup> ABI Research is a technology market intelligence company with a 24 year proven track record (*Company's self-definition*).

Another more recent trend related with the digital music industry is the fact that many users, regardless the fact that they are freemium users or paying subscribers, are “going mobile”. The growing smartphone penetration, together with the continuous evolution of Internet availability, speed, and more affordable plans offered by telecommunication companies, are changing the perceived value for the consumer of using digital music services via mobile devices (e.g., smartphones and tablets) which are making the mobile offering increasingly important for the streaming service companies.

While this picture is not so bright nowadays when we take a deeper look at the Northern Africa and Middle East market, countries like Morocco represent a market with a wide potential regarding the future.

Although in 2013, Africa’s Internet penetration was only 16%,<sup>6</sup> which corresponded to 167 million users and \$18 billion contribution to the continent GDP,<sup>7</sup> Morocco has one of the highest values across the Continent. According to *Internet Live Stats*,<sup>8</sup> Morocco has in 2014 the 27<sup>th</sup> highest number of Internet users in a set of 198 countries, with around 20 million people having access to the Internet countrywide, which corresponds to an Internet penetration rate of 60.33%. Besides, according to a study conducted by *Madar Research and Development*,<sup>9</sup> cited in *Morocco World News*,<sup>10</sup> by 2017 the country is expected to have the highest rate (72.4%) in the Northern Africa and Maghreb region, and the third higher in the Arab World, being only surpassed by Bahrain (87.4%) and Kuwait (73.7%).

Nevertheless, along with the positive impact that technological advance and Internet boom is having on the music industry, negative externalities also started to have a negative impact on the music industry. Especially piracy<sup>11</sup> that started to dramatically increase, having an impact on the overall industry. Streaming services, like NMusic, care about this illegal practice and are committed to invert this situation, adapting its products and services in order to mitigate piracy and reduce as much as possible its rate.

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<sup>6</sup> According to Internet World Stats, in 2013 Internet penetration rate was 68.6% in Europe, 84.9% in North America and 39% on global average.

<sup>7</sup> McKinsey Global Institute (2013), *Lions go Digital: The Internet’s transformative potential in Africa*, McKinsey & Company in Africa.

<sup>8</sup> Internet Live Stats is an online platform that provides worldwide values relative to Internet rates.

<sup>9</sup> Madar R&D is an organization specialized in Information and Communication Technology (ICT) market research.

<sup>10</sup> Morocco World News is a company focused on spreading worldwide the news of Morocco and the MENA (Middle East and North Africa) region.

<sup>11</sup> In the context, piracy can be defined as the illegal copy, distribution or use of music or music related content, which has copyrights associated with artists, agents and labels.



## 2.1. Business Opportunity

As it was analyzed in literature review, the music industry has been constantly evolving and represents an increasingly relevant business worldwide, especially when we focus on the future of the digital music industry in emerging markets and economies.

The Northern African market is emerging and as it will be analyzed thoroughly in the following chapters of this thesis, the combination of the industry evolution with the business context, the characteristics of Morocco and the digital music dynamics in the country, the company's expertise with other international experiences, enhanced by the company's external relations, represents a major opportunity for NMusic, in partnership with TRACE, to enter the Moroccan industry of digital music, leveraging the company's creation of a sustainable competitive advantage with the provision a new and completely innovative service.

## III. CONTEXTUALIZATION

### 3.1. Morocco Background

Morocco, officially the Kingdom of Morocco<sup>12</sup> is a country in the Arab region in the Northwest Africa called Maghreb. The country has around 33 million habitants, spread out by a total area of 710.850 km<sup>2</sup>,<sup>13</sup> and although the official capital city is Rabat, Casablanca is the largest city in the country and it is considered as the economic capital. Morocco's official religion is Muslim, official currency is the Moroccan Dirham (MAD),<sup>14</sup> and although Arabic and Tamazight (Berber) are the official languages, French is considered the "language of business, government and diplomacy" (the World Factbook, CIA).

Morocco is seen as one of the most attractive for business creation and/or implementation among the Arab World, and in the African continent. In fact, it is the most prosperous country in the Maghreb region and ranks fifth<sup>15</sup> among the countries of the Arab World,<sup>16</sup> after United Arab Emirates, Kuwait, Saudi Arabia and Jordan (refer to Appendix C for Morocco's main indicators).

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<sup>12</sup> Locally, the country is called *Al Mamlakah al Maghribiyah*, or simply *Al Maghrib*.

<sup>13</sup> This area comprises the Western Sahara part administered by Morocco.

<sup>14</sup> According to the *European Central Bank*, 1 EUR=11.2411 MAD, as of the first half of 2014.

<sup>15</sup> Source: The 2014 Legatum Prosperity Index, Legatum Institute.

<sup>16</sup> Note: The countries considered from the Arab World are those that compose the Arab League.

Following this overview, a more specific tool will provide a deeper analysis of the country's profile, including internal and external environment characterization of Morocco's economy, policy and society.

### *SLEPT Analysis*

The SLEPT analysis is a qualitative tool that was used to identify the characteristics that should be considered upon the entrance of NMusic in the Moroccan digital music industry in order to better understand the macro-environmental factors that may affect NMusic in the country (refer to Appendix D for a detailed SLEPT model).

### *Social Factors*

Among the almost 33 million Morocco's inhabitants, around 87% are under 54 years old, enhancing the fact that the country population is youthful and optimistic towards the future.<sup>17</sup> Around 57% live in urban areas, which is an important factor when considering the customer segmentation and targeting.

However, Morocco is still associated with many negative social aspects, especially with factors related with human rights. Although the government's effort towards gender equality and universal human rights, discrimination against women, forced labor and sex trafficking, are relatively common practices (the World Factbook, CIA).

### *Legal Factors*

Morocco has signed many international agreements in order to fight copyright infringement, such as the Berne Convention for the Protection of Literary and Artist Works (1917), the WIPO (1971),<sup>18</sup> or the TRIPS Agreement (1995),<sup>19</sup> administered by the World Trade Organization.

The organization responsible for collecting royalties regarding the music industry is SACEM,<sup>20</sup> a French performance rights organization that operates in Morocco via BMDA,<sup>21</sup> which is the Moroccan responsible and is also committed to decrease piracy

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<sup>17</sup> McKinsey's Africa Consumer Insights Center (2012), *The rise of the African consumer*, McKinsey & Company.

<sup>18</sup> WIPO stand for Convention establishing the World Intellectual Property Organization.

<sup>19</sup> TRIPS stand for Agreement on Trade-Related Aspects of Intellectual Property Rights (1995).

<sup>20</sup> SACEM stands for *Société des Auteurs, Compositeurs et Editeurs de musique*, which means Society of Music Authors, Compositors and Editors.

<sup>21</sup> BMDA stands for *Bureau Marocain du Droit d'Auteur*, which means Moroccan Bureau of Authors' Rights.

levels. The government and authorities are also increasingly dedicated to fight piracy and there are many predicted punishments for copyrights infringers.<sup>22</sup>

### *Economic Factors*

Morocco's economy has been through a steady growth, with low levels of inflation, whereas unemployment rate is 9.5% and the poverty headcount ratio at \$1.25 a day is 2.5%, which is lower than average of African countries. The economy mainly depends on tourism, agriculture, emigrants' transfers and foreign direct investment. Taxation on companies is relative to operations carried in national territory, normal corporate tax is 30% and standard VAT<sup>23</sup> is 20%. In general, Morocco's taxation is similar to the European average, thus costs relative to taxation will also be identical.

Regarding one of the most important drivers of the country's economic growth, foreign direct investment has been showing an excellent performance since 2011, mainly due to the government's effort and aggressive policy to attract more FDI. In fact, Morocco accounted for 33% of all Northern Africa FDI.<sup>24</sup>

### *Political Factors*

In the recent past, Morocco has been enjoying an unusual political stability for a country in the MENA region that is deeply related with the continuous evolution from a strongly centralized monarchy to a democratic and parliamentary system with more liberal values.<sup>25</sup> Since 2001, King Mohammed VI<sup>26</sup> has been enforcing universally accepted power to local governors and adopting politics to protect human rights, good practices and economic transparency. Moreover, the government of Morocco supports an open economy, with strong external relations, especially with the country's main primary creditors and foreign investors (France and Spain). This fact is enhanced by the signing of many free trade agreements and the beginning of negotiation of others, such as the EuroMed,<sup>27</sup> the US-Morocco Free Trade Agreement, the Agadir Agreement among the Greater Arab World or the DCFTA.<sup>28</sup>

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<sup>22</sup> The predicted punishments for copyright infringers go from monetary fines to imprisonment from 2 to 6 months.

<sup>23</sup> VAT stands for the regular Value Added Tax.

<sup>24</sup> Source: BDO Morocco. 2014. *Doing Business in Morocco*, BDO Member Firms.

<sup>25</sup> According to the *European Forum for Democracy and Solidarity*.

<sup>26</sup> King Mohammed VI was crowned in 1999.

<sup>27</sup> EuroMed stands for Euro-Mediterranean Free Trade Agreement.

<sup>28</sup> DCFTA stands for Deep and Comprehensive Free Trade Area. Negotiations regarding this agreement started in March 2013 and are currently in progress.

### *Technological Factors*

Besides the fact that Internet users have been growing in Morocco, its access is moving from public places, such as cyber cafés, towards people's homes and workplaces, which is making Internet usage something more personal. Also, smartphone, tablet and laptop usage have been following the same trend in a country where mobile penetration is already higher than 100%.<sup>29</sup> Moreover, people are spending more daily hours online than ever, and the beginning of the 4<sup>th</sup> Generation Mobile Technologic auctions in 2014 will revolutionize smartphone and Internet industries in the country, adding a new and faster service to the bundle that is already offered by the communications operators.<sup>30</sup>

### **3.2. NMusic Profile**

NMusic is a Portuguese start-up founded in 2010 by Celestino Alves as part of Diligence Capital SGPS, SA. The company's mission is to provide free music access worldwide, help to reduce piracy and it is based on a triangle: listening-sharing-living.<sup>31</sup> One of the company's most valuable resources is people, which although represented by a small number of employees, have many years of music related experience, strong editorial background and specialized knowhow.

The company's business model is based on a white label B2B2C.<sup>32</sup> The reason for this is not only because the B2B2C business model allows an immediate access to a broader user segments, but also because NMusic does not have the resources (especially financially) to go for B2C. Additionally, the company's primary objectives are to capitalize the opportunities that are arising in the market, through resources acquisition, diversification of the sources of revenues through internationalization, and decreasing as much as possible customer dependency. In order to attain the company's objectives, NMusic already started its internationalization process in 2013, and is currently present in Africa and Middle East (refer to Appendix N for NMusic Portuguese and International branding). Regarding the objectives of the company for Morocco, NMusic

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<sup>29</sup> This fact suggests that some users are operating in more than one phone.

<sup>30</sup> The higher technologic bundle that is offered by Maroc Telecom, the country's biggest operator, is usually a combination of Asymmetric Digital Subscriber Line Television (ADSL TV), 3G Connection, and Smartphone usage.

<sup>31</sup> Refer to Appendix E for NMusic Mission Triangle.

<sup>32</sup> A B2B2C model (Business to Business to Consumer) is a collaboration process of Business-to-Business and Business-to-Consumer models, which aims at creating a multiple beneficial service for all parties involved.

is focused and fully committed to be able to provide full access to adFree<sup>33</sup> music content countrywide, and for that a partnership with TRACE is strategically relevant and is a strength that will be translated into competitive advantage for the company.

### **3.3. TRACE Profile**

Current CEO and co-founder Olivier Laouchez launched TRACE in 2003 together with Claude Grunitzky, a media group that mainly provides music and sport content to a wide and mostly young audience, in over 150 countries. TRACE brand is based on 9 pillars<sup>34</sup> and the company's core business is divided into three main areas or channels: TRACE Tropical, TRACE Urban and TRACE Sports.<sup>35</sup>

TRACE has already established several agreements with many digital operators in Europe, Middle East, Africa and North America, with the highlight for the contract with Maroc Telecom, the country's biggest operator. This is an important partnership that will take a major role when formulating the strategic entrance in the Moroccan market. Additionally, TRACE also has agreements with radio operators and is fully committed in properly follow the recent trends related with digital media, by providing a digital radio service, several mobile applications and disclosure of different events and music related news in social network platforms, such as Facebook or Twitter.<sup>36</sup>

Moreover, the company has been focusing on a forth channel, TRACE Africa, which offers the best contemporary African music hits to TRACE users, from music videos to exclusive specials and documentaries. The fact that African music is becoming more popular all over the world combined with the fact that TRACE is the leading channel in the continent offered an excellent opportunity for the company to create a channel specially aimed at the African consumers.

#### *Strategic fit with NMusic*

Taking into account the previous NMusic and TRACE characteristics, specialized knowledge, experience and expertise, it is understood that a potential collaborative arrangement between these two enterprises can only leverage the creation of value and

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<sup>33</sup> AdFree services are those that offer a product or service without advertisement.

<sup>34</sup> Refer to Appendix F for the TRACE brand pillars.

<sup>35</sup> TRACE Tropical is a channel dedicated to tropical music and culture, TRACE Urban is a channel dedicated to urban music and culture, and TRACE Sports is a channel mainly dedicated to sports celebrities.

<sup>36</sup> TRACE has already 180,000 fans in Facebook and 7,000 followers on Twitter.

create a win-win situation for both firms. The partnership counterparts for both companies will be analyzed further in this thesis.

Moreover, this statement only becomes clearer when we take into account that these two companies have already started negotiations with the objective of creating a partnership that will facilitate the internationalization process. Primarily, this partnership will create a business in France, as the most favorable and well-known market for TRACE; and Morocco, that besides being considered a benchmark for the Northern African and Arab World regions, has the privilege of having strong international relations with France and other European countries, and thus is considered ideal to start the internationalization process. Only in a subsequent stage it is expected that NMusic will create the necessary resources that will allow the expanding into other countries.

Regarding the main advantages for each company, while NMusic will be able to continue its process of engagement with a B2B2C business model and not only take advantage of the established network of clients that TRACE has in Morocco, but also of the contract that the company has with one of the biggest operators in the country, Maroc Telecom. In exchange, TRACE will benefit from NMusic previous internationalization experience, specialized knowledge and white-label platform that gathers all the necessary conditions for them to provide a completely innovative service labeled by TRACE's brand, but that was not neither created nor will be managed by them. Moreover, the agreement will comprise a fifty-fifty revenue share for the two companies, without the existence of an initial monetary fee.

### **3.4. Industry Analysis and Competitive Assessment**

When formulating the business strategic process, another important analysis is to assess the industry in terms of competitiveness, which allows a better understanding of the relative positioning of the main players in the industry, the balance of power among them, and ultimately a more effective decision of where to position regarding the dynamics, recent trends and future estimations and beliefs regarding the industry.

#### *Porter Five Forces*

In order to make this analysis the Porter Five Forces tool was used, as it is a powerful tool providing a deep and clear understanding of five critical aspects of any industry:

threat of new entrants, supplier power, buyer power, threat of substitution, and the level of competitive rivalry (refer to Appendix G for a detailed Porter Five Forces analysis and qualitative assessment).

#### *Threat of New Entrants to the Market*

In the Moroccan market of digital music, the threat of new entrants is considerably expressive and thus is one of the most significant threats for the currently established players. In addition to the fact that this market is emerging and is expected to become one of the most powerful in the African continent, barriers for entering into the market, such as the initial required investment and startup costs, such as the renting of a physical office and the salary of the local employees are currently not very meaningful, at least for NMusic as these costs will be softened by the partnership with TRACE.

But at the same time, some retaliation from the established products is expected in a way that these players will be able to take advantage of their positioning to easily adapt their products accordingly to NMusic offering, in case they intend to do so. Thus, NMusic should protect as much as possible its offering, by taking advantage of protective legal issues, first-mover advantage and continuously leveraging the company's sustainable competitive advantage and innovative dynamics, so that its offering engages customers in a way they become more loyal.

Another important factor regarding the threat of new entrants is the access to resources, which is crucial in the digital music industry. The most relevant resources in the digital music industry are the intangible resources, such as the specialized know-how, which NMusic already has extremely well rooted and can be readily transferred to Morocco, or even operated from offshore (in Portugal). Yet, the same principle applies to potential entrants, especially the strong worldwide players who are already established in other parts of the world, and have as well the access to the resources and knowledge of the market dynamics, such as Spotify.

#### *Bargaining Power of Suppliers*

In the music industry, bargaining power of suppliers, which primarily consist in the record labels, is one of the most relevant constraints to take into account. Music suppliers have a significant control over the businesses, as they own most digital music and have exclusivity agreements with the artists and managers for the rights of

publishing and distribution. This makes the product that the suppliers offer (i.e., music tracks and video clips) unique and impossible to replicate, thus giving to the suppliers great bargaining power. Therefore, it is very important to establish good relations and celebrate as most as possible beneficial contracts with them.

Regarding the main music suppliers, composed by the Big Three group, NMusic already has contracts with them for the distribution of their content in the African Continent, enabling the company to skip the tough step of negotiating with these labels, and giving them a significant advantage over potential entrants. Contracts with smaller and local record labels<sup>37</sup> should not be very difficult to attain, as the offering NMusic will provide also represents a big opportunity for them to advert their artists, whose biggest part is not worldwide famous and need projection to be able to grow, creating a win-win situation.

#### *Bargaining Power of Buyers*

Bargaining power of buyers is also an important factor to take into account, due to the fact that users are rational, have preferences and some standards that need to be met. Actually, different users have different preferences and tastes regarding the products or services, in particular when we are talking about an industry that is composed by many completely different musical genres that may correspond to a set of very heterogeneous people regarding tastes.

Being a country with almost 33 million people, the potential number of customers in Morocco is a very appealing number.<sup>38</sup> Nevertheless, the number of potential customers at the beginning, although relatively small when comparing to the total population, is expected to grow at good pace and represents a number that is more significant than the current customers in the Portuguese market, for example.

Price sensitivity is another of the distinguished factors that especially affects this business. Most people is not willing to spend much money on streaming services, as they acknowledge that there are also alternatives, that even though do not have the same quality and diversification of services and offerings, can provide them with a final

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<sup>37</sup> Some examples of local record labels are Rotana, Cosmo Records or Fusion.

<sup>38</sup> A short and long term estimation of these potential customers will be given later in this thesis, together with the respective revenue model, and according to three possible scenarios, a pessimistic, an optimistic and an intermediate.



similar output, most of the times for free.<sup>39</sup> Notwithstanding, the easiness to substitute to cheaper and sometimes free products is what gives the customers a significant bargaining power, thus it will be taken into account when pricing NMusic offering.

#### *Threat of Substitute Products*

Regardless the fact that in the Moroccan market of digital music there are not many perfect substitutes to NMusic and TRACE offering, as it was analyzed in the competitive rivalry assessment, we cannot assume that these options cannot be created and that the customers cannot change to the available competition.

If not fully satisfied in conformity with price or specific characteristics of the service itself, and due to its bargaining power, customers may opt for services like Deezer or Anghami, which are already operating in Morocco. This enhances the fact that the product and service that the partnership NMusic and TRACE will offer has to be completely innovative and sensitive to the customers' preferences, in a way that it will be able to create brand loyalty and retain customers as much as possible, by creating an instantaneous engagement of the customer with the product.

#### *Degree of Competitive Rivalry*

As previously discussed, currently the Moroccan market of digital music is composed by a small number of established competitors and is not very well consolidated, only representing a very limited portion of the worldwide market. Nevertheless, and due to the factors discussed in the environmental context analysis and literature review, this market represents a significant potential for the future, as its growth prospect for the coming years is quite relevant, and it is likely that when the market attains a bigger size, many other players will attempt to enter the market, contributing to increase the level of competitive rivalry.

Deezer is considered the biggest player, and thus will be the main direct competitor to NMusic. The extent, proprieties and quality of Deezer service, combined with the company's size and worldwide experience and presence, and already established and relatively consolidated position in the Moroccan market is an advantage for the company. Another relevant primary player in this market is Anghami, whose primary

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<sup>39</sup> In Morocco the existence of substitutes is much lower than on European countries or in the United States. Nevertheless and although illegal, piracy is also considered an indirect substitute.

competitive advantage is the fact that it is an Arab music streaming service, benefiting therefore of a specialized knowledge of the region that will take time to NMusic to learn, besides being the only streaming service that offers its platform in Arabic. Moreover, YouTube was also considered as an indirect competitor, due to the fact that even though the type of service offered is different from Deezer and Anghami, there are still a significant number of people that continue to listen to music and watching music videos on YouTube, for free.

Finally, and reinforcing the fact that it is also important to look at the longer term, other potential entrants and powerful direct competitors for the company, such as Spotify or iTunes, were also analyzed in a summarized way (refer to Appendix H for a schematized characterization of the main worldwide players and its offerings).

Hence, and according to these arguing, the current degree of rivalry in the market is not high and does not represent a very striking threat in the short term. However, it is expected to increase significantly in the next years, strengthening the idea that NMusic should enter the market in the near future. Moreover, the fact that NMusic is entering the market before many powerful potential entrants, such as Spotify, is an important advantage for the company, that will be able to attract and retain an important part of the consumers that would be uncertain about which service to choose, thus attenuating the threat of other services to the company.

#### **IV. BUSINESS MODEL AND INTERNATIONALIZATION STRATEGY**

Following the contextual analysis, the business model was developed, divided into value proposition, operating model and revenue model, whereas many variables like the segmentation and positioning, product and services offering, SMART objectives,<sup>40</sup> collaborative arrangements and revenue model, were defined, among others.

##### **4.1. Value Proposition**

The value proposition statement defends NMusic's differentiation product and aims at convincing the consumers that its product is better and will create more value than the competitors'. It was supported through the SWOT/TOWS analysis, a set of SMART objectives, segmentation and targeting process, and product and service offering.

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<sup>40</sup> SMART stands for specific, measurable, assignable, realistic and time-related objectives.

### SWOT/TOWS Analysis

The SWOT analysis is a strategic tool that was used to analyze the set of NMusic and TRACE internal strengths and weaknesses, as well as the external opportunities and threats. Posteriorly, this strategic planning was drawn in the TOWS, as it can be observed in the following table, allowing the formulation of strategic decisions in order to maximize its strengths and mitigate the weaknesses, by taking advantages of the opportunities and trying to minimize the impact of the threats (refer to Appendices I and J for a detailed description of the SWOT and for TOWS analysis):

Table 2: NMusic TOWS analysis.

<b>TOWS Analysis</b>	<b>Internal Strengths (S):</b> 1. NMusic previous experience 2. Offshore management 3. Partnership with TRACE 4. Contracts with major labels 5. Legal and innovative service	<b>Internal Weaknesses (W):</b> 1. Limited local market knowledge 2. Low brand awareness 3. Limited financial resources 4. Limitation of actions from great supplier power
	<b>Opportunities (O):</b> 1. Market growth prospect 2. Increasing of technological usage 3. Possibility to expand 4. Willingness to cooperate from local record labels	<b>Threats (T):</b> 1. New entrants 2. Retaliation by established players 3. Low streaming awareness 4. Piracy level
	<b>Opportunities (O):</b> (S1&2/O1&2) Use of previous experience to capitalize and take the most of the growing market and minimize operational costs by managing offshore. (S3&4/O3) NMusic' strategic partnership with TRACE and established contracts with major record labels will facilitate the expansion process.	<b>Threats (T):</b> (W1&2/O4) The willingness to cooperate from local labels broadens the limited knowledge and increases brand awareness. (W3/O1&3) Entering Morocco will facilitate the future expansion process and is a persuasion factor to increase financial resources.
	<b>Threats (T):</b> (S3&4/T1&2) NMusic strategic partnership with TRACE and contracts with the major record labels gives a competitive advantage that attenuates the threat of new entrants and gives differentiation over established players. (S5/T4) The offering of a legal service and its commitment to fight piracy contributes for the decrease in illegal downloads.	<b>Threats (T):</b> (W1/T2) Protective strategies and strategic agreements with local players are strategies to mitigate the limited local market knowledge, in case of retaliation. (W2&3/T1) Strategies to combat low brand awareness and limited financial resources to avoid new players' entrance.

### *SMART Objectives*

After the identification of NMusic and TRACE partnership strengths and weaknesses, a set of specific, measurable, assignable, realistic and time-related (SMART) objectives was created for the short and medium term in Morocco.

The first crucial objective is to set and establish as soon as possible contacts with Moroccan local record labels in a way that celebration of contracts for their music content distribution is achieved in an early period and before the launch of the service. Secondly, another objective is to increase as most as possible the streaming services awareness in the country in a first phase, by increasing as much as possible NMusic and TRACE brand awareness, in a way that it will facilitate brand recognition and increase reputation among the Moroccan consumers so that they prefer NMusic service to the competition offering.

This last objective is enhanced and motivated by the previous and was set as reaching at least 7% of the potential segmented customers in the first operating year, which already represents a similar number of the current customers in the Portuguese market, and that consequently will make the company achieve and increase the most its market share.

### *Segmentation and Targeting Process*

The segmentation and targeting process allowed an extensive comprehension of how NMusic segmented and targeted the Moroccan customers, as well as how would the company position in the market regarding the main players. Firstly, the Moroccan customers were segmented according to geographic, demographic and behavioral characteristics such as the region area or city size, age, income or occupation, literacy rate, poverty level, purchase occasion, and Internet and smartphone usage.

Following the selected characteristics, the Moroccan segments for NMusic to target as potential customers were the young people and adults (less than 54 years), people that have a reasonable literacy,<sup>41</sup> educational level and are currently employed. Also, only customers that live in the Moroccan urban areas were considered as potential. Furthermore, other segments to target were the people that have access to Internet and have a smartphone, as these are required to fully take advantage of the Premium or

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<sup>41</sup> Having a reasonable literacy was assumed as simply being literate people.

Premium Plus versions, as it will be further explained. These people are more aware of the national and international music trends, as well as are much more familiar and used to directly deal with digital devices and social network.

Moreover, the Maroc Telecom ADSL TV subscribers, which are already indirect users of TRACE, and the emigrants, particularly those living in France and that have a deeper knowledge of TRACE and its music channels, will also be a priority target. It was considered that these indirect and potential customers represent an important opportunity for NMusic to retain them and engage in customer loyalty.

After the segmentation process, an undifferentiated target strategy was chosen due to the similarities of the targeted segments and broad range of potential users. This means that NMusic and TRACE will not focus on a niche number of customers, but instead will try to reach as much people as possible right during the first year of operations.

Given this, it was assessed that nowadays there are in Morocco around 1,721,632 million potential users with conditions to engage in NMusic and TRACE offering (refer to Appendix K for the variables of the segmentation process and quantitative approach and Appendix L for the estimation of the number of potential users).

### *Products & Services Offering*

NMusic offering in Morocco will be based on a triple-play streaming service focused on, but not limited to listening to music. Moroccan users will be able to enjoy over 20 million of international songs, including a selection of Arabic songs, from over 300 thousand artists, and in all platforms with a single account: PC, Mac, Linux, Smartphones (Android and iOS), tablets, and TV (including interactive TV).

NMusic and TRACE offering will be named after a consensus among the responsible of both companies and will consist in a bundle business model, which includes three different versions: a Free, a Premium and a Premium Plus versions, and allows users to choose from the best option regarding their preferences. Prices will vary from free to 4.19€ per month, which makes the product cheaper relative to competitors' offering.<sup>42</sup> Moreover, the Moroccan clients that are subscribers of Maroc Telecom ADSL TV will have the option of accessing the Premium and Premium Plus versions for a cheaper

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<sup>42</sup> Pricing was set as a value based on a competitors pricing strategy, with comparison to Deezer Premium Plus average price in the North Africa and Middle East region, which is the equivalent to 4.60€.

price, in case they want to use NMusic and TRACE triple play offering, including the interactive TV service.

Besides, users will have the possibility to benefit of one-month free trial in the Premium or Premium Plus versions and the upgrade to a different one at any time will be possible without the payment of any additional fee. NMusic and TRACE offering to Morocco, with the correspondent characteristics and prices are as follows (refer to Appendix M for a detailed description of the partnership offering to Morocco):

Table 3: NMusic and TRACE bundle offering to Morocco.

Feature/Offering	Free	Premium	Premium Plus
Music Streaming	✓	✓	✓
# Music Offered	≈4 million	≈10 million	>20 million
Triple Play	✗	✓	✓
Offline Mode	✗	✓	✓
Downloads	✗	3/ month	10/ month
Price <sup>43</sup>	Free (with ads)	2.99€/month	4.19€/month
Price for Maroc Telecom ADSL TV subscribers	Free (with ads)	1.99€/month	3.19€/month

## 4.2. Operating Model

The definition of the operating model for Morocco is crucial in order to understand how the primary and secondary operations of the company will be carried out. This model was created with the objective of maximizing the alignment of NMusic organizational resources, competitive operational process and strategy, product and service offerings, and SMART objectives with TRACE's in a way that it would create a sustainable competitive advantage, through the value chain analysis, VRIO Framework, collaborative arrangements and mode of entry.

<sup>43</sup> All prices in Morocco will be the correspondent value in Moroccan Dirhams.

## Value Chain

NMusic current value chain is divided into five primary activities and three secondary activities. The primary activities are divided into two sectors, those controlled and in which costs are mostly incurred by NMusic and those whose costs will be mostly responsibility of TRACE. Thus, technological R&D, license negotiation, contract management, and the digital content management are the primary activities whose costs account for 65% of the total costs. Moreover, secondary activities, such as the platform management, human resources management and financial management, account together for 18% of the total costs, which are less relevant for the overall costs. Finally, marketing, sales and customer service only account for 3%, as the highest part of cost of these primary activities will be managed and coordinated by TRACE. Given this, NMusic is expected to operate with a margin of around 12%.<sup>44</sup>

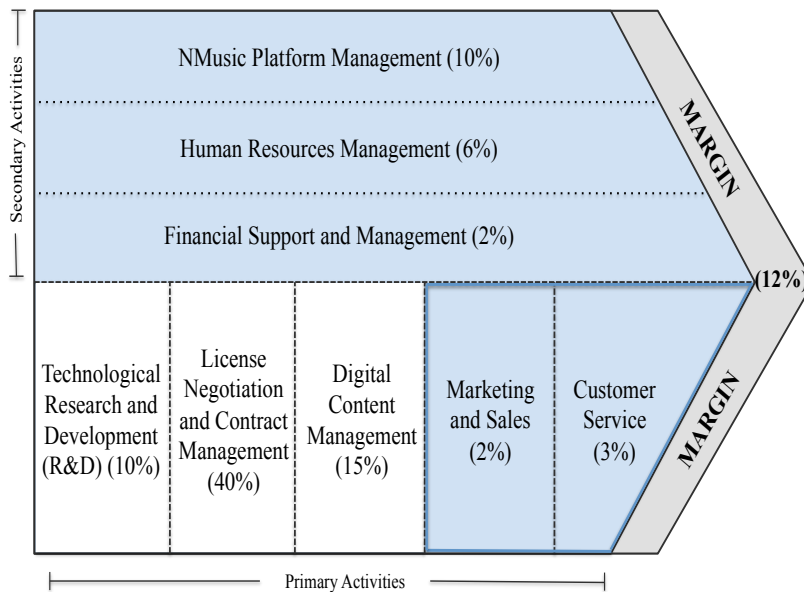


Figure 1: Value chain with the primary and secondary activities, and operating margin.

## VRIO Framework

Following the value chain analysis, the VRIO Framework Analysis was performed in order to understand the extent in which NMusic and TRACE resources and capabilities can be a source of competitive advantage for the partnership in Morocco. This analysis assesses the resources in terms of value, rarity, imitability and organization, which allows the drawing of conclusions about the creation of competitive advantage.

<sup>44</sup> The association of the primary and secondary activities on the value chain, as well as the operating margin, to its correspondent percentage of the costs is based on intuitive estimation.

Moreover, and together with the SWOT analysis, the VRIO Framework allows NMusic to develop strategies that benefits from its internal strengths, in response to the external opportunities and trying to minimize as much as possible threats, and is as follows:

Table 4: VRIO Framework with resources/capabilities and respective competitive implication.

Resource/Capability	V R I O				Competitive Implication
Team Knowhow and Expertise	✓	✓	✓	✓	Sustainable Competitive Advantage
Partnership with TRACE	✓	✓	✓	✓	Sustainable Competitive Advantage
White Label Offering	✓	✓	✓	✓	Sustainable Competitive Advantage
Agreements with Record Labels for Distribution in Africa	✓	✗	✗	✓	Competitive Parity
Platform Characteristics	✓	✓	✗	✓	Temporary Competitive Advantage
Platform Design and Offshore Management	✓	✗	✗	✓	Competitive Parity
Price/Quality Relationship	✓	✓	✗	✓	Temporary Competitive Advantage
Sales and Distribution Channel	✓	✗	✗	✓	Competitive Parity
NMusic Flat and Small Organizational Structure	✓	✓	✓	✓	Sustainable Competitive Advantage
Brand Recognition and Reputation	✗	✗	✗	✗	Competitive Disadvantage
Client Management and Support	✓	✓	✗	✓	Temporary Competitive Advantage

As we can observe, most resources create a competitive advantage for NMusic and TRACE partnership in Morocco, however some of them are considered not to be difficult to imitate and thus may no longer create the advantage in case of creation of similar resources of adaptation of the competitors' current resources more similarly to NMusic, which represent a temporary competitive advantage. Additionally, although brand reputation is currently a competitive disadvantage for the company, the



partnership with TRACE and potential third-party agreement with Maroc Telecom, as it will be discussed in the following chapter, can increase brand reputation due to the fact that these two companies are more recognized by the Moroccan consumers and have a much higher reputation than NMusic alone.

#### *Collaborative Arrangements and Mode of Entry*

As it has been being discussed throughout this analysis, NMusic will undertake its internationalization process to Morocco in partnership with TRACE, not only due to the lack of own financial resources, but also to minimize the exposure to risky environments and take advantage of the partner reputation, positioning and reputation. The collaborative arrangement will be a technological licensing agreement, in which NMusic will grant TRACE with the rights of distributing and provide their customers with its products and services. In exchange, TRACE will pay NMusic in a form of a variable monthly revenue share.

Moreover, and if possible, a third party licensing agreement will be created with Maroc Telecom in order to take advantage of the already ADSL TV clients, which are indirect subscribers of TRACE and thus will be able to use the triple play offering for a more affordable price. In this particular case, payments to NMusic will also be in a form of a variable monthly revenue share.

### **4.3. Revenue Model**

The revenue model was created with the objective of estimating in a quantitative way NMusic and TRACE revenues in the first year of operations in Morocco, based on the segmentation and targeting process, and applying three different scenarios regarding the potential customer retention rate: an optimistic, a pessimistic and an intermediate.

#### *Share Revenue per User*

Firstly, the expected share revenue per user was estimated in order to understand how much of the price paid by the consumers NMusic is going to receive. In order to do so, it was discounted the standard VAT (20%), the payments of the performing rights to SACEM (around 12.5% of the gross revenue after tax), the payment to suppliers (which account for the highest percentage of the revenues) and the bandwidth costs (which were considered as 6% on average, but are variable depending on the number of active

users) from the gross revenue per user, which is the price paid by the consumers for the respective service.<sup>45</sup> The share revenue model is as follows:

Table 5: Share Revenue Model.

SHARE REVENUE MODEL	Premium		Premium Plus	
	Maroc Telecom ADSL TV subscribers	General Users	Maroc Telecom ADSL TV subscribers	General Users
Gross revenue per user	1.99€	2.99€	3.49€	4.19€
After VAT (20%)	1.59€	2.39€	2.79€	3.35€
After payment to SACEM (12.5%)	1.39€	2.09€	2.44€	2.93€
After payment to record labels (70%)	0.42€	0.63€	0.73€	0.88€
After Bandwidth Costs (6%)	0.39€	0.59€	0.69€	0.83€
<b>Share revenue per user<sup>46</sup></b>	<b>0.13€</b>	<b>0.30€</b>	<b>0.23€</b>	<b>0.41€</b>

As it can be observed, NMusic will receive a monthly amount between 0.13€ and 0.41€ per user, depending on the user characteristics and type of version they are active users.

#### *First Year Expected Revenue*

According to the segmentation process (refer to Appendix K for the variables of the segmentation process and Appendix L estimation of the number of potential users), it was estimated that for the first year of operations in Morocco there are a total 675,110 general potential users for the Premium version and 363,521 for the Premium Plus version. Regarding the subscribers of Maroc Telecom ADSL TV, it was estimated that there are a total of 341,500 potential customers for each of the Premium or Premium Plus versions. These clients represent a niche in the Moroccan market and have above than average purchasing power, thus it was considered that there was a high probability that they feel indifferent regarding the two premium versions.

<sup>45</sup> Only the Premium and Premium Plus versions were considered as there are no payments associated with the Free version and thus no revenues as well.

<sup>46</sup> Share revenue per user is a division of the revenue after tax and other costs by 2 (NMusic and TRACE) in case of the general users or by three (NMusic, TRACE and Maroc Telecom) in case of the Maroc ADSL TV subscribers.

Following the estimation of the total number of users per version and per customer type, three potential scenarios were used in order to estimate the first year revenue for each of NMusic versions. In the pessimistic scenario it was assumed 4% customer retention rate of the total potential customers; in the intermediate scenario it was assumed a 7%, and in the optimistic scenario it was assumed a 15% rate. Nevertheless, is not expected that, even in the best possible scenario, NMusic and TRACE will be able to retain more than the 258,245 customers in the first year of operations. The revenue model for the first year of operations is as follows:

Table 6: Revenue model for the first year of operations.

<b>REVENUE MODEL</b>	<b>Premium Version</b>					
	Maroc ADSL TV Subscribers			General Users		
Scenario	Pessimistic	Intermediate	Optimistic	Pessimistic	Intermediate	Optimistic
Potential Users	13 660	23 905	51 225	27 004	47 258	101 267
Share revenue per user	0.13 €	0.13 €	0.13 €	0.30 €	0.30 €	0.30 €
Monthly Revenue	€1 788.67	€3 130.17	€6 707.50	€7 969.36	€13 946.38	€29 885.09
<b>First Year Revenue</b>	<b>€21 464</b>	<b>€37 562</b>	<b>€80 490</b>	<b>€95 632</b>	<b>€167 357</b>	<b>€358 621</b>

	<b>Premium Plus Version</b>					
	Maroc ADSL TV Subscribers			General Users		
Scenario	Pessimistic	Intermediate	Optimistic	Pessimistic	Intermediate	Optimistic
Users	13 660	23 905	51 225	14 541	25 446	54 528
Share revenue per user	0.23 €	0.23 €	0.23 €	0.41 €	0.41 €	0.41 €
Monthly Revenue	€3 136.91	€5 489.59	€11 763.41	€6 013.41	€10 523.47	€22 550.29
<b>First Year Revenue</b>	<b>€37 643</b>	<b>€65 875</b>	<b>€141 161</b>	<b>€72 161</b>	<b>€126 282</b>	<b>€270 604</b>

Given the previous table it is possible to estimate that in the first year of operations NMusic will have expected revenues between €117,096 and €439,111 relative to the

Premium users and between €109,804 and €411,765 relative to the Premium Plus users, which corresponds to total revenue between €226,900 and €850,876.<sup>47</sup>

In the following years of operations, revenues may or may not increase due to several factors, but it is difficult to estimate the growth rate in customer retention. Factors as the upgrade rate<sup>48</sup> and the growth in the customer base due to the increase in the brand awareness and the word of mouth marketing effect<sup>49</sup> will increase the number of customers and thus the revenue. However, it is also important to retain the current customers and create brand loyalty to minimize customer waiver and substitution that have an opposite effect on revenues.

## **V. CONCLUSION**

Following the positive perspective for the future regarding the potential of the overall digital music industry in Morocco, together with NMusic inherent capabilities and competitive advantages that arise from the partnership with TRACE, it was considered that the necessary conditions for a successful internationalization process are gathered.

Even if the company should carefully consider the balance of benefits, costs and risks, the estimated number of potential users between 68,865 and 258,245 in the first year of operations, which accounts for a revenue for NMusic between €226,900 and €850,876, still represents a wide range. The differences in revenues between the worst and the optimal extreme can be crucial when taking the ultimate decision of entering the Moroccan market of digital music.

Therefore, the strategic approach that should be taken must be one that is able to achieve the objectives, by taking the most from the partnerships, securing at least the 7% of the segmented potential users (120,514), invest in promotion to increase brand awareness and surely offer an innovative and superior product than those that are available in the Moroccan market.

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<sup>47</sup> The range of the interval of the expected revenue refers to the sum of the most pessimistic scenario to sum of the most optimistic scenario regarding all users in the Premium and Premium Plus versions.

<sup>48</sup> The upgrade rate refers to when a customer upgrades from the Free to the Premium or Premium Plus or from the Premium to the Premium Plus versions, engaging in more features and paying a higher price for the service.

<sup>49</sup> The word of mouth marketing effect is the effect of persuasions that arise from friends and family over all forms of advertising (Forbes).

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